

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Francisco Unified School District (The District) was established as the San Francisco School System in 1851 under the laws of the State of California. The District and County Office of Education (COE) operates under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District and COE provide child care and elementary and secondary education in the City and County of San Francisco (County), State of California (State). The District also administers the COE fund (County School Service Fund). For financial reporting purposes, the District includes all funds, account groups, agencies, and authorities that are controlled by or dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District. The District operates 75 elementary schools, 18 middle schools, 18 high schools, including three continuation schools and one independent study alternative school. The District sponsors ten Charter Schools. The District also maintains an adult education school and 28 Early Childhood Education Centers.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For San Francisco Unified School District, this includes general operations, food service and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Charter Schools The District has approved Charters for Creative Arts, Gateway, Leadership, Life Learning Academy, Five Keys, Cross Cultural Academy, KIPP Bayview, KIPP SF Bay Academy, City Arts and Technology High School and Metropolitan Arts and Technology High School, pursuant to Education Code Section 47605. The Charter Schools are sponsored by the District but operate independently. Their financial activity is not presented in the District's financial statements except for the pass-through of State aid and property tax revenues.

Joint Powers Agencies and Public Entity Risk Pools The District is a member of the School Project for Utility Rate Reduction (SPURR), the Northern California Regional Excess Liability Fund, (NCR) and the Schools Excess Liability Fund (SELF) joint powers authorities (JPA's). The District pays an annual contributions to NCR and SAFER for property and excess liability coverage and to SELF for additional excess liability coverage. The relationship between the District, and the JPA's is such that they are not component units of the District for financial reporting purposes.

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Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary and fiduciary.

Governmental funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund The General fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

County School Service Special Revenue Fund The County School Service Special Revenue fund is used to account for resources committed to Special Education, other County schools, and the regional occupation program maintained by the District

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has no enterprise funds.

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self Insurance Fund that is accounted for as an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: pension trust funds, investment trust funds and agency fund.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Private-purpose trust funds are accounted for as a restricted component of the General Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District maintains the following two Agency funds:

Payroll Trust Agency Fund The Payroll Trust Agency Fund is used to account for assets held for employees for payroll withholding

Student Body Agency Fund The Student body Agency Fund is used to account for assets held for student organizations of schools in the District.

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Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Governmental Fund Financial Statements Governmental Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements, prepared on the accrual basis of accounting using the economic resources measurement focus, and the governmental fund statements, prepared on the modified accrual basis of accounting and using the flow of current financial resources measurement focus.

Proprietary Funds Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

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Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met and recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2004 consist of deposits on hand with the County Treasurer and are stated at amortized cost at which approximates fair value. Fair value is provided by the County Treasurer.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

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Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$25,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

When purchased, such assets are recorded as expenditures in the governmental funds but are capitalized and depreciated over their estimated service lives in the government-wide financial statements. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

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Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest on bonds, COP's and capital leases are recognized as expenditures in governmental funds when paid.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for FEMA funds received. In the Government-Wide Statement of Net Assets, this designation is reported as unrestricted reserves.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has \$397,483,796 in net assets as of June 30, 2004. Of that amount, \$392,965,443 represents the District's net fixed assets, net of related outstanding debt. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are Interfund Insurance Premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

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Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Francisco bills and collects the taxes in behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncement

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The adoption of this statement had no impact on the District's financial statements.

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NOTE 2 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash

Cash at June 30, 2004, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

| | Bank Balance - Category * | | | |
|---------------------------|---------------------------|-------------|---------------------|---------------------|
| | 1 | 2 | 3 | Total |
| Cash on hand and in banks | \$ 505,985 | \$ - | \$ 2,148,767 | \$ 2,654,752 |
| Cash in revolving fund | 4,500 | - | - | 4,500 |
| Cash with fiscal agent | - | - | 1,988,534 | 1,988,534 |
| Total | <u>\$ 510,485</u> | <u>\$ -</u> | <u>\$ 4,137,301</u> | <u>\$ 4,647,786</u> |

| | Carrying Amount | | | |
|---------------------------|---------------------|-------------------|---------------------|---------------------|
| | Governmental | Proprietary | Fiduciary | Total |
| Cash on hand and in banks | \$ 45,055 | \$ 998,657 | \$ 1,543,779 | \$ 2,587,491 |
| Cash in revolving fund | 4,500 | - | - | 4,500 |
| Cash with fiscal agent | 1,988,534 | - | - | 1,988,534 |
| Total | <u>\$ 2,038,089</u> | <u>\$ 998,657</u> | <u>\$ 1,543,779</u> | <u>\$ 4,580,525</u> |

*These categories are as follows:

- Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

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Investments

Deposits with the County Treasurer are not categorized because they do not represent securities, which exist in physical or book entry form. The District reports the carrying value of these deposits at the lower of cost or market. Market adjustments to increase the carrying value to fair value are not made as the changes are not considered material. The fair values were provided by the County Treasurer.

The investments at June 30, 2004 had reported and fair values and were categorized as follows:

| | Deposits with County Treasurer | |
|--------------------------------------|--------------------------------|-----------------------|
| | Fair Value | Carrying Value |
| Uncategorized: | | |
| Reported in Governmental Funds - Net | \$ 164,908,672 | \$ 165,238,489 |
| Reported in Proprietary Funds | 9,776,203 | 9,795,755 |
| Reported in Fiduciary Funds | 8,209,265 | 8,225,684 |
| Total Value | <u>\$ 182,894,140</u> | <u>\$ 183,259,928</u> |

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

| | General | County School Service | Building | Nonmajor Funds | Total Governmental | Total Proprietary | Total Fiduciary |
|---------------------|---------------------|-----------------------|-----------------|--------------------|---------------------|-------------------|------------------|
| Federal Government | | | | | | | |
| Categorical aid | \$21,666,979 | \$1,536,820 | \$ - | \$2,065,796 | \$25,269,595 | \$ - | \$ - |
| State Government | | | | | | | |
| Categorical aid | 7,845,066 | 3,078,252 | - | 590,802 | 11,514,120 | - | - |
| Lottery | 3,242,660 | - | - | - | 3,242,660 | - | - |
| Other Local Sources | 26,890,416 | 160,467 | 84,326 | 2,957,056 | 30,092,265 | 27,914 | 103,642 |
| Total | <u>\$59,645,121</u> | <u>\$4,775,539</u> | <u>\$84,326</u> | <u>\$5,613,654</u> | <u>\$70,118,640</u> | <u>\$ 27,914</u> | <u>\$103,642</u> |

Additional long term receivables include \$1,756,381 for a special education settlement with payments expected to be received annually over the next seven years.

In June 2004 the District entered into a settlement agreement with Strategic Resource Solutions Corp. (SRS) and other parties to settle claims arising from an Energy Services Agreement (ESA) between SRS and the District. The Settlement agreement calls for the District to receive \$32 million, net of fees paid to attorneys totaling \$11.1 million. \$16 million was received in the 2004 year with the remaining balance to be received in the 2005-06 fiscal year. The District initially accrued the full \$32 million in proceeds as an asset at June 30, 2004. The District's auditors have deferred the balance to be received in the 2005-06 fiscal year as the amounts do not meet the criteria for accrual under the modified accrual basis of accounting. The full \$32 million is recorded as a receivable in the entity-wide financial statements.

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NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | Balance June 30, 2003 | Additions | Balance June 30, 2004 |
|---|--------------------------|---------------------|--------------------------|
| Governmental Activities | | | |
| Capital Assets being depreciated: | | | |
| Buildings and Improvements | \$ 440,580,796 | \$ 24,368,521 | \$ 464,949,317 |
| Furniture and Equipment | 47,357,779 | - | 47,357,779 |
| Total Capital Assets being depreciated | <u>487,938,575</u> | <u>24,368,521</u> | <u>512,307,096</u> |
| Less Accumulated Depreciation: | | | |
| Buildings and Improvements | 75,108,822 | 11,245,718 | 86,354,540 |
| Furniture and Equipment | 11,552,968 | 3,228,220 | 14,781,188 |
| Total Accumulated Depreciation | <u>86,661,790</u> | <u>14,473,938</u> | <u>101,135,728</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 401,276,785</u> | <u>\$ 9,894,583</u> | <u>\$ 411,171,368</u> |

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivable/Payable (Due From/Due To)

Interfund receivable and payable balances at June 30, 2004, between major and nonmajor governmental funds are as follows:

| | | Due From | | | |
|--------|-----------------------|--------------------------|-------------------|----------------------|----------------------|
| | | County School Service | Building | Internal Service | Total |
| Due To | General | \$ 3,129,050 | \$ - | \$ - | \$ 3,129,050 |
| | Building | - | - | 10,000,000 | 10,000,000 |
| | Nonmajor governmental | - | 800,000 | - | 800,000 |
| | Total | <u>\$ 3,129,050</u> | <u>\$ 800,000</u> | <u>\$ 10,000,000</u> | <u>\$ 13,929,050</u> |

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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Interfund transfers for the year ended June 30, 2004, consisted of the following:

| | |
|--|----------------------|
| The General fund transferred to County School Service fund to cover the deficit fund balance. | \$ 991,551 |
| The General fund transferred to Cafeteria fund to cover the deficit fund balance. | 753,129 |
| The General Fund transferred to the Child Development Fund to cover the deficit fund balance. | 4,222,808 |
| The General fund transferred to Special Reserve-Capital Outlay fund for the energy retrofit capital lease payment. | 2,322,992 |
| The General fund transferred to Debt Service fund for COP principal and interest payments. | 3,575,548 |
| Total | \$ 11,866,028 |

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

| | General | County School Services | Building | Nonmajor Funds | Total Governmental | Total Proprietary | Total Fiduciary |
|-----------------------|----------------------|------------------------------|---------------------|---------------------|-----------------------|----------------------|---------------------|
| Vendor payables | \$ 10,155,803 | \$ 5,045,520 | \$ 3,655,838 | \$ 2,793,815 | \$ 21,650,976 | \$ 137,743 | \$ - |
| State apportionment | 635,467 | 3,413,495 | - | 952,265 | 5,001,227 | - | - |
| Salaries and benefits | - | - | - | - | - | - | 8,312,907 |
| Excess ERAF tax | - | 17,070,974 | - | - | 17,070,974 | - | - |
| Due to student group | - | - | - | - | - | - | 1,543,779 |
| Claim liabilities | - | - | - | - | - | 30,678,000 | - |
| Total | \$ 10,791,270 | \$ 25,529,989 | \$ 3,655,838 | \$ 3,746,080 | \$ 43,723,177 | \$ 30,815,743 | \$ 9,856,686 |

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NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

| | General | County School Service | Building | Nonmajor Funds | Total |
|---------------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| Federal financial assistance | \$11,501,281 | \$ 74,886 | \$ - | \$ 34,783 | \$ 11,610,950 |
| State categorical aid | 5,724,244 | 22,120 | - | 195,281 | 5,941,645 |
| School facilities apportionment | - | - | - | 18,785,800 | 18,785,800 |
| Other local | 475,518 | - | 1,500,000 | 2,256 | 1,977,774 |
| Total | <u>\$17,701,043</u> | <u>\$ 97,006</u> | <u>\$ 1,500,000</u> | <u>\$ 19,018,120</u> | <u>\$ 38,316,169</u> |

NOTE 8 – LONG-TERM LIABILITIES

Long-Term Debt Summary

The changes in the District's long-term obligations during the year consisted of the following:

| | Balance July 1, 2003 | Additions | Deductions | Balance June 30, 2004 | Due in one year |
|-------------------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------|
| State school building loans | \$ 443,361 | \$ 14,180 | \$ 172,338 | \$ 285,203 | \$ 129,940 |
| Certificates of participation | 21,305,000 | - | 2,420,000 | 18,885,000 | 1,305,000 |
| Accumulated vacation - net | 5,315,028 | 1,002,679 | - | 6,317,707 | 6,317,707 |
| Capital leases | 33,043,735 | - | 1,029,573 | 32,014,162 | 470,894 |
| Revenue limit deficit | - | 10,051,477 | - | 10,051,477 | - |
| | <u>\$60,107,124</u> | <u>\$11,068,336</u> | <u>\$ 3,621,911</u> | <u>\$67,553,549</u> | <u>\$ 8,223,541</u> |

State and Public School Building Loans

The outstanding State School Building Loans are as follows:

| Year Disbursed | Interest Rate | Loans Outstanding July 1, 2003 | Interest | Redeemed | Loans Outstanding June 30, 2004 |
|-------------------|------------------|--------------------------------------|------------------|-------------------|---------------------------------------|
| Various | 4.8-5.6% | <u>\$ 443,361</u> | <u>\$ 14,180</u> | <u>\$ 172,338</u> | <u>\$ 285,203</u> |

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code. Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code

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Certificates of Participation

In September 1992, the District issued certificates of participation in the amount of \$13,430,000 with interest rates ranging from 4.5 to 5.7 percent to advance refund 1987 Certificates of Participation which were issued to evidence lease payments for construction, remodeling, and improvement of facilities. As a result, the 1987 refunded bonds were considered to be defeased and the liability has been removed from the long-term obligations. At June 30 2004, the principal balance outstanding on the 1992 certificates of participation was paid off.

In May 1996, the District issued \$5,750,000 in Refunding Certificates of Participation with interest rates ranging from 4 to 5.5 percent to advance refund \$4,480,000 of outstanding 1989 Lease Revenue Bonds with an average interest rate of 6.5 percent. As a result, the 1989 bonds are considered to be defeased and the liability has been removed from the long-term obligations. At June 30, 2004, the principal balance outstanding on the 1996 certificates of participation was \$2,550,000.

In August 1998, the District issued \$4,435,000 in Certificates of Participation for Capital Improvement Financing Projects. The debt represents a portion of a pooling arrangement, in which the total debt is \$40,590,000. The interest rate is adjustable, with a maximum of 12 percent. At June 30, 2004, the principal balance outstanding for the District's portion was \$3,300,000.

In January 1999, the District issued \$14,045,000 in Certificates of Participation to finance the District's acquisition and improvement of a new administrative building. Interest rates range from 3.4 to 4.15 percent. At June 30, 2004, the principal balance outstanding was \$13,035,000.

The Certificates of Participation mature through 2031 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|----------------------|-------------------------|----------------------|
| 2005 | \$ 1,305,000 | \$ 845,392 | \$ 2,150,392 |
| 2006 | 560,000 | 690,675 | 1,250,675 |
| 2007 | 1,005,000 | 710,857 | 1,715,857 |
| 2008 | 1,050,000 | 670,990 | 1,720,990 |
| 2009 | 1,575,000 | 641,703 | 2,216,703 |
| 2010-2014 | 3,675,000 | 2,614,284 | 6,289,284 |
| 2015-2019 | 2,305,000 | 2,043,571 | 4,348,571 |
| 2020-2024 | 2,910,000 | 1,276,900 | 4,186,900 |
| 2025-2029 | 3,660,000 | 650,037 | 4,310,037 |
| 2030-2031 | 840,000 | 19,950 | 859,950 |
| Total | <u>\$ 18,885,000</u> | <u>\$ 10,164,359</u> | <u>\$ 29,049,359</u> |

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Accumulated Unpaid Employee Vacation

Full-time District employees are entitled to 10-25 vacation days a year, depending upon length of service, for which up to 30 working days in excess of the employee's annual vacation award may be carried over to the next year.

Additions to vested compensated absences reflect net changes during the year ended June 30, 2004. Also, the City and County of San Francisco Charter provisions allow classified employees to accumulate up to 130 working days of sick leave. Certified employees, under State law, are allowed to accumulate unlimited days of sick leave. Upon normal retirement, the District will redeem 100 percent of the sick leave accrued by classified personnel prior to December 5, 1978, and no sick leave accrued after December 5, 1978. No sick leave amounts are payable to certificated personnel upon normal retirement, or to employees who terminate for any reason prior to retirement.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$38,603,559 corresponding accumulated depreciation of \$8,101,687 at June 30, 2004. The District's liability on lease agreements with options to purchase are summarized below:

| | Energy Retrofit | AT&T modular | BA Equipment | Total |
|----------------------------|----------------------|-----------------|-----------------|----------------------|
| Balance, Beginning of Year | \$ 57,867,070 | \$ 447,098 | \$ 227,924 | \$ 58,542,092 |
| Payments | 2,381,944 | 447,098 | 227,924 | 3,056,966 |
| Balance, End of Year | <u>\$ 55,485,126</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 55,485,126</u> |

The capital leases have minimum lease payments as follows:

| Year Ending June 30, | Lease Payment |
|---|----------------------|
| 2005 | \$ 2,453,402 |
| 2006 | 2,527,004 |
| 2007 | 2,602,816 |
| 2008 | 2,680,900 |
| 2009 | 2,761,326 |
| 2010-2014 | 15,100,066 |
| 2015-2019 | 17,505,114 |
| 2020-2024 | 9,854,498 |
| Total | <u>55,485,126</u> |
| Less: Amount Representing Interest | 23,470,964 |
| Present Value of Minimum Lease Payments | <u>\$ 32,014,162</u> |

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

General Obligation Bonds Issued by the City and County of San Francisco

On June 3, 1997, the voters of San Francisco authorized a separate issuance of up to \$140,000,000 in general obligation bonds, of which \$90,000,000 is to be directed to the District for the replacement of obsolete structures with new safer buildings, to install computer technology infrastructure and upgrade electrical systems, and to modernize all science laboratories. As of June 30, 2004, the District has received the amount in full. The bonds are an obligation of the City and County of San Francisco and, as such, are not recorded as a liability of the District.

Revenue Limit Deficit

Due to a change in the way the State calculated the revenue limit for the 2003-04 fiscal year, the District recorded negative State aid in the amount of \$10,051,477. This negative amount is normally considered to be a current liability as the District does owe the money back to the State. In view of their current financial condition, the District met with the State and the two parties agreed to a repayment plan that will allow the District to repay this obligation over the next ten years. As such the negative State Aid amount of \$10,051,477 has been recorded as a component of long-term debt. The terms of the agreement call for the District to repay the balance, without interest, as follows:

| Year Ending June 30, | Payment |
|-------------------------|----------------------|
| 2005 | \$ - |
| 2006 | 500,000 |
| 2007 | 750,000 |
| 2008 | 1,100,185 |
| 2009 | 1,100,185 |
| 2010-2014 | 5,500,925 |
| 2015 | 1,100,182 |
| Total | <u>\$ 10,051,477</u> |

Because the amount in question has been set up as a component of long-term debt, under the modified accrual basis of accounting, the deficit State aid liability is not considered a current liability, therefore it has no current year impact on the District's ending fund balance. The District will have to record a current liability in future years, for the payment due each year, and only then will the amount impact the ending balance of the general fund. The full amount of the liability is recorded in the Government-wide Financial Statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

The following is a reconciliation of the difference between the undesignated general fund deficit noted above and the unrestricted net asset deficit as shown in the Statement of Net Assets:

| | General | County School Service | Building | Nonmajor Funds | Total |
|---------------------|---------------|--------------------------|---------------|-------------------|---------------|
| Reserved | | | | | |
| Revolving cash | \$ 500 | \$ - | \$ - | \$ 4,000 | \$ 4,500 |
| Stores inventory | 540,758 | - | - | 104,601 | 645,359 |
| Restricted programs | 17,123,739 | - | - | - | 17,123,739 |
| Total Reserved | 17,664,997 | - | - | 108,601 | 17,773,598 |
| Unreserved | | | | | |
| Designated | | | | | |
| FEMA reserve | 10,324,000 | - | - | - | 10,324,000 |
| Total Designated | 10,324,000 | - | - | - | 10,324,000 |
| Undesignated | (7,350,306) | - | 32,978,440 | 9,738,443 | 35,366,577 |
| Total Unreserved | 2,973,694 | - | 32,978,440 | 9,738,443 | 45,690,577 |
| Total | \$ 20,638,691 | \$ - | \$ 32,978,440 | \$ 9,847,044 | \$ 63,464,175 |

| | |
|--|-----------------|
| Balance per above | \$ (7,350,306) |
| Add Back: | |
| FEMA Reserve | 10,324,000 |
| Special Ed Receivable | 1,756,381 |
| Deduct: | |
| Compensated Absences Liability | (6,317,707) |
| Revenue Limit Deficit | (10,051,477) |
| Deficit Self-Insurance Reserve | (10,012,969) |
| Accrued Interest in excess of Debt Service Fund Balance | (1,303,006) |
| Balance per Statement of Net Assets | \$ (22,955,084) |

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are composed of the following elements:

| | General | County School Service | Building | Nonmajor Governmental | Total Governmental |
|----------------------|-----------------------|-----------------------------|-------------------|--------------------------|-----------------------|
| Categorical programs | \$ (4,693,069) | \$ 390,871 | \$ - | \$ - | \$ (4,302,198) |
| Other | 2,805,728 | - | 800,000 | (2,788,534) | 817,194 |
| Total | <u>\$ (1,887,341)</u> | <u>\$ 390,871</u> | <u>\$ 800,000</u> | <u>\$ (2,788,534)</u> | <u>\$ (3,485,004)</u> |

Categorical Programs

The District completed an extensive review of all categorical program balances during the year ended June 30, 2004. All adjustments resulting from this review, consisting primarily of adjustments to recorded receivable and deferred revenue balances, were classified as prior period adjustments.

Other

The District determined, in the current year, that amounts held in the fiscal agency for certificates of participation, previously recorded in debt service fund, should be recorded in the General fund. The transferred amount was \$1,988,534.

The District determined in the current year, that an amount posted to KALW Radio station in the previous year, was actually a National Science Foundation Trust Fund grant. The amount has been reclassified as part of the restricted General fund. The correction amount was \$817,194.

In the fiscal year 2001-2002, the District received \$800,000 from City and County of San Francisco for funding of the Bessie C. School Project. The District determined in the current year that the amount previously recorded in Special Reserved-Capital fund, should be recorded in the Building fund.

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 50 with at least 20 years of service, or attaining the age of 60 with at least 10 years of service, and for all certificated employees participating in STRS (hired as of July 1, 1972 and later), after attaining the age of 55 with at least 5 years of service. Currently, approximately 4,200 employees meet those eligibility requirements. The District pays an equivalent active employee rate for each retiree and the retiree pays the difference between the District's active employee rate and the retiree's actual individual premium cost and the cost of any dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees premiums are paid.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT

The District's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, and disability programs are administered through the purchase of commercial insurance. Employee dental insurance is provided on a self-funded basis. The District participates in the Northern California Regional Excess Liability Fund (NCR), SAFER, and the Schools Excess Liability Fund (SELF) joint powers authorities (JPA's). The District pays annual contributions to NCR and SAFER for property and excess liability coverage and to SELF for additional excess liability coverage. Additional commercial insurance is also purchased for excess workers' compensation, crime, student foreign travel, and student accidents.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities for workers compensation are based on a current actuarial study using the "expected value" as the basis for the total liability. The workers' compensation liabilities are reported at their present value using an expected future investment yield assumption of 4 percent. The amount of the liability recorded at June 30, 2004, was \$30,265,000 and \$413,000 for workers' compensation and dental claims respectively.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. All full-time employees are eligible to participate under defined benefit retirement plans maintained by agencies of the City and County of San Francisco and the State of California. Certificated employees hired as of or after July 1, 1972, are eligible to participate in the cost-sharing multiple-employer, contributory State Teachers' Retirement System (STRS). Classified employees and certain certificated employees hired prior to July 1, 1972, are eligible to participate in the single-employer San Francisco City and County Employees' Retirement System (SFCCRS). Employees who are not eligible to participate under either of these two plans may participate in the Public Agency Retirement System (PARS).

STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2003-2004 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2004, 2003 and 2002 were \$18,068,000, \$23,178,000 and \$19,009,492 respectively, and equal 100 percent of the required contributions for each year.

SFCCRS

Plan Description

The District contributes to the San Francisco City and County Employees' Retirement System (SFCCRS). SFCCRS is a separate department of the City and County of San Francisco, deriving its powers, functions, and responsibility from the City charter and ordinances of the Board of Supervisors of the City and County of San Francisco. Substantially all employees of the City and County are members including most of the District's classified permanent full-time employees and certain certificated employees hired prior to July 1, 1972. Members are classified according to City bargaining units as police, fire, and miscellaneous. District employees are members of the miscellaneous pool. The retirement fund provides retirement, disability, and death benefits based on the employee's years of service, age, and final compensation. Employees with 20 years of service who have attained age 50 or those with 5 years of service who have attained age 60 are eligible for retirement benefits.

Funding Policy

In accordance with the City charter, District participants contribute 7.5 percent to 8.0 percent of their salaries to the SFCCRS. The funding policy of SFCCRS provides for actuarially determined periodic contributions by the District at rates such that sufficient assets will be available to SFCCRS to pay District participants' benefits when due. Employer contribution rate for the year ended June 30, 2004 is 0% to 8%. The District pays a portion of the employee's contribution, which varies, among the District bargaining units. District payments of the employee contribution are classified as fringe benefits. The District contributed \$5,650,200, to SFCCRS for the year ended June 30, 2004, consisting of \$2,011,788 of employee contributions and \$3,638,412 of fringe benefit reimbursement of employee contributions (employer pick-up of employee contributions).

Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess on an going-concern basis the funding status of SFCCRS, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons between retirement systems and employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used. SFCCRS does not make separate measurements of assets and the pension benefit obligation for the District.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

The pension benefit obligation of SFCCRS was computed as part of an actuarial valuation performed as of July 1, 2002. The significant actuarial assumptions used in the 2002 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.25 percent and annual future wage inflation of 4.5 percent.

Information regarding the pension benefit obligation of SFCCRS for the year ended June 30, 2002 is based on the 2002 actuarial valuation (latest information available). Such valuation included plan assets at fair value and the pension benefit obligation computed as an actuarial accrued liability. The actuarial accrued liability and actuarial value of assets at June 30, 2002 (in millions) were \$9,416 and \$11,102, respectively. The overfunded liability (in millions) and funded ratio were \$1,686 and 117.9 percent, respectively. The overfunded amount represented 83.5 percent of the total covered payroll (in millions) of \$2,019 for the 2002 valuation year. The increase in the pension benefit obligations for the 2002 valuation was due to normal changes in the age, length of service and salary of covered employees.

Historical Trend Information

Ten year trend information for the years ended June 30, 1993 through 2002 is as follows (Dollars in millions):

| | 2002* | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|-----------|-----------|-----------|----------|----------|----------|----------|----------|----------|----------|
| Actuarial value of assets available for benefit payments | \$ 11,102 | \$ 10,797 | \$ 10,076 | \$ 8,862 | \$ 7,946 | \$ 7,245 | \$ 6,664 | \$ 6,132 | \$ 5,726 | \$ 5,377 |
| Actuarial accrued liability - entry age | 9,416 | 8,372 | 7,238 | 6,431 | 6,351 | 6,162 | 5,814 | 5,620 | 5,688 | 5,534 |
| Underfunded (overfunded) actuarial accrued liability | (1,686) | (2,425) | (2,838) | (2,431) | (1,595) | (1,083) | (850) | (512) | (38) | 157 |
| Funded ratio (actuarial value of assets as a percentage of actuarial accrued liability) | 117.9% | 129.0% | 139.2% | 137.8% | 125.1% | 117.6% | 114.6% | 109.1% | 100.7% | 97.2% |
| Covered payroll | \$ 2,019 | \$ 1,858 | \$ 1,727 | \$ 1,591 | \$ 1,474 | \$ 1,385 | \$ 1,321 | \$ 1,194 | \$ 1,189 | \$ 1,118 |
| Underfunded (overfunded) actuarial accrued liability as a percentage of covered payroll | -83.5% | -130.5% | -164.3% | -152.8% | -108.2% | -78.2% | -64.3% | -42.9% | -3.2% | 14.0% |
| Annual required employer contribution made in accordance with actuarially determined requirements | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10 | \$ 69 | \$ 84 | \$ 101 |

* Most recent information available.

PARS

Plan Description

The District participates in three retirement plans administered by the Public Agency Retirement System (PARS) Trust: the Alternative Retirement System (ARS), the Target Benefit Plan (TBP), and the Supplementary Retirement Plan (SRP). The PARS is a public agency multiple-employer retirement trust (TRUST) under Section 40(a) and 501 of the Internal Revenue Code. The PARS is available to all public agencies that have formally adopted the Trust and established qualified retirement plans. Each agency plan in the Trust stands alone as an independent entity for tax and legal purposes. The District offers PARS plans to part-time, temporary and other employees who otherwise are not eligible to participate in SFCCRS or STRS.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Funding Policy

ARS

The ARS is defined contribution plan available to District employees, including part-time, seasonal and temporary, who are not accruing benefit under Social Security or another retirement plan which meets the requirements of Internal Revenue code 3121(B)(7)(F). Employees participating in ARS contribute 3.75 percent of their salary which is matched by a District contribution of 3.75 percent. All contributions are immediately vested at 100 percent. During the year ended June 30, 2004 the District made matching contributions of \$36,139.

TBP

The TBP has components of a defined contribution and defined benefit plan and is available to District employees not accruing a benefit under another retirement system provided or maintained by the District. Employees participating in TBP contribute 5.75 percent of their salary which immediately vests at 100 percent. Additionally, the District makes annual contributions to the Employer Reserve account. Annually, an allocation from the Employer Reserve account to each participant's Employer Allocation account is made based on a actuarial formula, which when combined with the employee contribution, would fully fund the projected target benefit of providing life annuity with a 2 percent cost-of living adjustment totaling 2 percent of the participant's 3 year average annual compensation for each year of service. The Employer Allocation account vests at 100 percent after 5 year of service (with an minimum of 700 hours in each year of service) with no partial vesting. The significant actuarial assumptions used in determining the employee allocation included an investment rate of 7 percent. Since the District contributes sufficient amounts on an annual basis to fund the Employer Reserve account, the TBP is considered fully funded at June 30, 2004.

SRP

The SRP is a defined benefit retirement plan that is available to eligible certificated bargaining unit members that elected to participate during the enrollment period ending in fiscal 1994 and 1998 as part of an early retirement program. Benefits available to participants under SRP include life annuity equal to 7 percent of final annual salary or other actuarially equivalent benefits. The District funds these benefits on a pay-as-you-go basis.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$5,448,481 (2.28 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

Litigation

The District is a defendant in a class action lawsuit which challenges the amounts of impact fees the District has charged developers. At risk, if the class is certified, is approximately \$13 million developers fees collected by the District. The case is still in its early stages and no trial date has been set. The District is unable to assess at this point in time the likelihood of an unfavorable outcome. No accrual for any amounts that may become due, should the District not prevail in this action, has been made.

The District is a defendant in a class action lawsuit, *Lopez et al. v. San Francisco Unified*, that alleges the District has failed to comply with the Americans With Disabilities Act and Section 504 of the Rehabilitation Act. The District entered into a settlement agreement in July 2004, which requires the District to make structural changes to its facilities. Such changes will be funded from the District's capital improvement budget with no anticipated impact to the District's general fund. However the District remains liable for plaintiff's fees and costs. Class counsel filed a claim for \$9 million in fees and costs. The District has opposed the claim and now the matter is to be heard before a judge. The District has \$3 million in insurance proceeds available to offset any awarded claim amount. However, the District would be liable for any amounts awarded in excess of the insurance coverage. At this point in time, it is not certain if there will be any residual liability to the District. No accrual has been made for any amounts of liability in excess of the insurance coverage.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the School Project for Utility Rate Reduction (SPURR) and participates in the Northern California Regional Excess Liability Fund (NCR), SAFER, and the Schools Excess Liability Fund (SELF) joint powers authorities (JPA's). The District pays annual contributions to NCR and SAFER for property and excess liability coverage and to SELF for additional excess liability coverage. The relationship between the District, and the JPA's is such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

| Entity | SPURR | SELF | NCR |
|--|--|-------------------------------------|---|
| Purpose | To provide the District with gas, electricity and other utility services | Excess Liability Insurance Coverage | Property and Liability Insurance Coverage |
| Participants | Member Districts | Member Districts | Member Districts |
| Condensed Audited Financial Information Follows | | | |
| | June 30, 2003* | June 30, 2003* | June 30, 2003* |
| Assets | \$ 12,157,244 | \$ 139,052,615 | \$ 27,149,663 |
| Liabilities | 11,181,475 | 107,855,085 | 18,878,610 |
| Fund Equity | \$ 975,769 | \$ 31,197,530 | \$ 8,271,053 |
| Revenues | 23,684,434 | 40,290,486 | 23,319,977 |
| Expenses | 23,770,980 | 56,733,282 | 21,888,273 |
| Net Increase (Decrease) in Fund Equity | \$ (86,546) | \$ (16,442,796) | \$ 1,431,704 |

*Most recent information available.

NOTE 16 – TAX AND REVENUE ANTICIPATION NOTES

At June 30, 2004, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$75,000,000, which matured on December 3, 2004. The notes were sold on November 20, 2003 with an interest rate of 1.08 percent. The notes were issued to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning December, 2004, until 100 percent of principal and interest due is on account in December 3, 2004.

NOTE 17 – SUBSEQUENT EVENT

The District issued \$75,000,000 of Tax And Revenue Anticipation Notes dated December 2, 2004. The notes mature on December 1, 2005, and yield 2.05 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning December 1, 2004, until 100 percent of principal and interest due is on account in December 1, 2005.

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REQUIRED SUPPLEMENTARY INFORMATION
